CITY OF SUGAR LAND
CITY MANAGER

July 25, 2006

Honorable Mayor and Members of City Council:

In accordance with Texas Statute and the Charter, Section 6.03 of the City of Sugar Land, the proposed annual budget for the fiscal year beginning October 1, 2006 and ending September 30, 2007 is hereby submitted. The Five-Year Capital Improvements Program (CIP) is submitted under separate cover.

The fiscal year 2006/07 budget is structurally balanced, addresses Council priorities, and follows the fundamentals of the City's Financial Management Policy Statements. This financial plan effectively balances achievement of community needs and accomplishment of Council priorities, while maintaining financial strength. The budget lowers the tax rate by $0.01056 per $100 from the 2005 tax rate, based on preliminary tax roll information, limiting the effects of increasing property valuation on residents. The proposed budget is designed to provide services for an estimated resident population of 76,787 as of January 2007, and an increasing daytime population, as the City becomes an employment center.

Among other national recognitions, Sugar Land ranks third in CNN/Money Magazine's 2006 "Best Places to Live". The focus was on livable cities with the "best possible blend of good jobs, low crime, quality schools, plenty of open space, rational home prices and lots to do." The outcome mirrors our 2021 vision- the community of choice…to live… to work…to play…to shop.

The City received upgrades in bond ratings in 2006. Both Moody's and Standard & Poor's upgraded the general obligation bond rating to Aa2 and AA, respectively, while Fitch, Inc. affirmed the AA rating already assigned to the City. Standard & Poor's also upgraded the City's revenue bond rating from A+ to AA-, while Moody's affirmed their A1 rating on revenue bonds. These ratings reflect the City's diverse economy, household income levels, willingness to adjust rates to maintain financial performance, and proactive policies to manage new development, including plans for future borrowing to address growth. The City's pay-as-you-go strategy for capital improvements and low property tax rate ensure that our budget is not overly burdened with elevated debt levels.

The City's challenge is to continue to provide superior services while minimizing, where controllable, the increasing fixed costs of doing business. The CPI increase for the Houston-Baytown-Sugar Land MSA for the 12 months ending June 2006 was 4.7%. Increased costs are evident in areas such as fuel and electricity, which affects most areas of the City's operations, from streetlights to buildings to water and wastewater plant operations.

Benefits to the City for this budget cycle include growth in our tax base through the 2005 annexation of Fort Bend Municipal Utility District 113 and through commercial growth. Excluding value added through the annexation, the City's 2006 preliminary tax roll is 8.5% higher than 2005 values, and 70% of this growth is commercial valuation. The average residential revaluation increase is 3.1% over 2005 values. As a result, we are able to lower the tax rate to the effective rate plus 3%, and dedicate an additional one-cent to drainage efforts. For 2006, the average Sugar Land homeowner will see a <u>decrease</u> of $1.36 or 0.2% in their tax bill from $645.65 to $644.29. The proposed budget continues the City's tradition of good value for the tax dollar.

<u>Economic Outlook</u>

Sugar Land has seen strong development activity in fiscal year 2005/06. Through June 37 commercial permits have been issued with a construction value of $98.5 million, including $43.6 million in the City's extraterritorial jurisdiction. Residential construction has leveled off from last year as the City is nearly built out except for newly annexed areas. Development of Telfair and Lake Pointe is beginning to occur with the first residential permits issued in May. Through June 2006, 104 single-family permits have been issued citywide with an average value of $229,157, a 40% increase in average value over last year's permitted homes. Over the next year, the developer of Telfair anticipates construction of approximately 600 homes in the 2,000-acre development. Lake Pointe is seeing strong commercial development, and construction of Lake Pointe Village is anticipated to begin soon, with 200,000 square feet of upscale retail and restaurants. A re-development plan for the former Imperial Sugar property, along with 500 adjacent acres, is in the planning stages.

The expansion of First Colony Mall is expected to be complete in fiscal year 2006/07, which provides 80,000 square feet of open-air retail and restaurant space between the existing mall and Town Square, with a pedestrian-friendly connection at Town Center Boulevard. Town Square development continues with the continued leasing and build-out of completed retail and office construction.

<u>Budget Priorities</u>

In March, management held a discussion with City Council on budget priorities for the upcoming fiscal year. With Council's input, the following priorities were communicated to departments that resulted in requests for funding. The priorities and proposed funding are summarized below:

- <u>Strengthen Code Enforcement</u>- the budget reallocates a position from the City Manager's office to the newly created Community and Environmental Services department. The department will include Health Inspection and Code Enforcement, and focus efforts toward issues that affect neighborhood livability and integrity.
- <u>Citizen Emergency Response Team (CERT)</u>- a program to train citizens to respond to emergencies within their own neighborhoods and support the City's public safety efforts in a disaster.
- <u>Implement Public Safety Compensation & Special Pay Study</u>- a comprehensive analysis of the City's public safety pay structure, and special pay for employees is wrapping up just in time for

the budget. Market-based recommendations from the study are incorporated into the budget and will be implemented in October.

- Establish a Volunteer Program- with three classes of Sugar Land 101 and the first Mayor's Youth Advisory Council complete; the City has a pool of individuals for opportunities where volunteers are needed. Opportunities exist for Citizen Police and Fire Academy graduates as well.
- Uniform Firearms- the Police Chief is recommending a transition to standardized weapons for all officers. The proposal includes the purchase of handguns and rifles, leather gear, cases and rifle racks, plus training needed for officer qualification with their new weapons.
- Special Crimes/Gang Task Force- as our City and region continue to grow, the City's proximity to a major urban area is having an effect. The Police Department teamed up with area law enforcement agencies to focus on targeted crimes. Funding is proposed to continue this pilot program in fiscal year 2006/07, and provide for operating and overtime needs.
- ROW Maintenance Efforts- the City has placed significant importance on beautification of rights-of-way; the need for established funding to provide for replacement of landscaping and continued upkeep of public areas has become increasingly clear. In fiscal year 2006/07 the City will retain maintenance of these areas and increase our efforts in mosquito control and street sweeping.
- Operating Impact of CIP Projects- the opening of the first phase of Brazos River Park is anticipated in May 2007, leading to increased maintenance requirements in the Parks Department. Improvements to Duhacsek Park will result in increased maintenance needs at that facility as well.
- Needs from New Development- residential development within Telfair is leading to increased building permit applications and installation of utility connections. The budget includes the addition of 4.5 full-time equivalent positions to address the service needs from development.
- Implement IT Master Plan- the Information Technology Master Plan is complete and the budget includes some, but not all, of the first year of recommendations, including the addition of two full-time positions and resources to improve the operating efficiency of the department and beginning implementation of recommended projects. Remaining recommendations will be phased in based on available funding.
- Internal Services Needs- as the City grows additional demands are placed on internal service departments- specifically in the areas of fleet maintenance and building support. To ensure continued quality service delivery, additional resources are needed in these areas.

The proposed budget includes eighteen (18) new positions for fiscal year 2006/07. Eleven of the positions are in the General Fund, five are in the Utility Fund, and two are in the Airport Fund. Each position will be identified in the budget summary that follows this introduction to the budget.

Fiscal Year 2006/07 Budget Summary

The proposed fiscal year 2006/07 budget total is $139.96 million, which is a $1.97 million or 1.43% increase over the total fiscal year 2005/06 amended budget of $137.99 million, including the budget for the annexation of MUD113. The budget is split into three segments: the first is the City's operating budget, which is the funding that provides for day-to-day service delivery; the remaining two are the Component Units, which includes the Sugar Land Development Corporation and the Sugar Land 4B Corporation, and the Capital Projects budget, both which can vary significantly from year to year.

The proposed budget is broken down as follows:

	FY 2005/06 Amended	FY 2006/07 Proposed	% Change	$ Change
City Operating Budget	$ 91,634,197	$100,608,253	9.79%	$ 8,974,056
Component Units	23,499,685	7,998,541	-65.96%	-15,501,144
Capital Projects	22,861,238	31,354,988	37.15%	8,493,750
Total	$137,995,120	$139,961,782	1.43%	$ 1,966,662

The annexation of Fort Bend MUD113 leaves a positive balance in the General Fund. I am proposing to set aside $300,000 of this balance as a reserve for future annexation / dissolution of districts within the City and extraterritorial jurisdiction (ETJ). By capturing these dollars each year, we may be able to facilitate future annexations or dissolutions of these districts and minimize the financial impact to residents. We are working to negotiate Strategic Partnership Agreements (SPA) with the MUDs in our ETJ; the SPA will define the terms of annexation and establish participation of the MUD in the City's groundwater reduction plan.

As we have done in the last few years, a long-range forecast has been prepared for each of the major operating funds. The forecast shows that the proposed budget is affordable, both this year and in future years, and will allow us to progress toward objectives identified in the financial management policy statements. The long-range forecast is included in the appendix and will be reviewed during each fund's respective budget workshop.

I encourage you to continue to review the proposed budget for fiscal year 2006/07. The Budget Summary that follows this transmittal letter provides a summary of revenues, initiatives included in each of the City's operating funds, and a description of the capital improvements plan and employee compensation. Through a series of budget workshops in August, the administrative team and I will review with City Council the proposed funding plan for the year.

Respectfully,

Allen Bogard

Allen Bogard
City Manager

KEY ELEMENTS OF THE FISCAL YEAR 2006/07 BUDGET

TAX RATE AND ASSESSED VALUATION

Tax Rate

The balanced budget reduces the ad valorem tax rate from $0.31711 to $0.30655 per $100 assessed valuation, which is equal to the effective tax rate plus 3%. The 2006 proposed tax rate is allocated between debt service ($0.15307) and operations and maintenance ($0.15348). The debt component of the tax rate has been reduced $0.01580 and the operating component increased $0.00524, for a net reduction of $0.01056. Within the effective tax rate plus 3%, we are able to commit an additional cent for drainage efforts, for a total of two cents dedicated to drainage operations and capital improvement projects.

According to the 2006 preliminary tax roll, the average home value in the City of Sugar Land is $215,176, excluding newly annexed properties, up slightly from $208,605 in 2005. As the budget reduces the tax rate to the effective rate plus 3%, based on these preliminary values, the average resident will see a decrease in their 2006 tax bill of 0.2% or $1.36, with a homestead exemption. The over-age and disabled person exemption for 2006 was increased in June from $67,727 to $69,827.

Assessed Valuation

The preliminary net assessed valuation of $7,148,049,613 for tax year 2006 is $930,068,593 or 14.96% greater than the 2005 adjusted tax roll. The amount included in the budget includes $194 million in value that is under review, which is approximately 85% of the protested values for those properties. Of the $7.15 billion in preliminary value, $86.3 million is included in TIRZ #1, and taxes collected on this valuation will be allocated to the TIRZ from the City. Major contributors to the increase in assessed value are the December 2005 annexation of Fort Bend MUD113, with approximately $442 million in taxable value, plus healthy growth in commercial values, due to new construction and re-valuation of existing properties.

MAJOR REVENUE SOURCES

Citywide revenues for fiscal year 2006/07 total $132.06 million. Major sources include property tax of $22 million, sales tax of $34.4 million, charges for service of $35.5 million (including utility and airport charges), bond proceeds of $21.9 million, and other revenues totaling $18.2 million.

The City is able to lower the property tax rate by $0.01056 and generate an additional $2.2 million in tax revenues, due to annexation and healthy increases in commercial valuation. These increases, offset by modest increases in residential value, result in a tax decrease to the average Sugar Land homeowner. Property tax accounts for 16.6% of estimated revenues in the budget.

Commercial development within the City is leading to a 5.07% increase in sales tax collections, excluding those derived from incentive agreements. The City anticipates a total of $34.4 million in sales tax revenues in fiscal year 2006/07, of which $1.65 million will be paid out in incentives. This is a 13% increase over the current year budget. Revenues are allocated $25.8 million to the General Fund, and $4.3 million each to the SLDC and SL4B Corporations. Ten percent (10%) or $2.58 million of General Fund sales tax is allocated to fund pay-as-you-go capital improvement projects.

The utility fund will generate $19.2 million in revenues from user fees. The budget anticipates a 2.4% revenue increase to be implemented mid-year. The City contracted with R.W. Beck in May 2006 to conduct a rate analysis and develop a new rate model for the City. The rate analysis and rate model will be built around the proposed budget, and a rate structure will be recommended that will enable the City to achieve this revenue growth. City Council will receive a report from R.W. Beck in October 2006. Rate changes will be implemented in early 2007.

The Sugar Land Regional Airport anticipates a 16.7% increase in aviation fuel sales- 2.45 million gallons compared to an original estimate of 2.1 million gallons for the current year, resulting in a 38% increase in fuel revenues when combined with the increased cost of fuel. Excluding bond proceeds for capital projects, total airport revenues are anticipated to increase by 33% over the current year budget.

TOTAL APPROPRIATIONS

The total fiscal year 2006/07 operating budget, which includes the General, Drainage, Debt Service, Utility, Airport, Solid Waste, and Internal Service Funds totals $100.6 million which is a $8.97 million or 9.79% increase over the total fiscal year 2005/06 amended operating budget of $91.63 million. Component unit budgets total $7.99 million, and capital projects funding totals $31.35 million, for a total budget of $139.96 million- a 1.43% increase over fiscal year 2005/06.

Fund	Fiscal Year 2005/06 Amended*	Fiscal Year 2006/07 Proposed	Percent Change
General Fund	$ 43,345,200	$ 48,306,794	11.45%
Drainage Fund		542,018	
Debt Service Fund	18,436,075	17,130,252	-7.08%
Utility Enterprise Funds	12,734,888	14,210,033	11.61%
Airport Enterprise Fund	7,145,565	9,770,224	36.73%
Solid Waste Enterprise Fund	3,103,611	3,116,057	0.40%
Other Funds	6,868,858	7,528,775	9.61%
Total City Operating Funds	**91,634,197**	**100,603,253**	**9.79%**
Component Units	23,499,685	7,998,541	-65.96%
Total Operating Budget	**115,133,882**	**108,582,119**	**-5.69%**
All Capital Projects Funds	22,861,238	31,354,988	37.15%
Total Budget	**$ 137,995,120**	**$ 139,961,782**	**1.43%**

*Includes MUD 113 Annexation Budget

The budget and key initiatives for each major fund are explained below.

DEBT SERVICE FUND

The 2006/07 budget anticipates the issuance of most of the remaining GO bond authorization from the 1999 bond referendum. General Obligation bonds totaling $7.4 million will be issued to finance $3.65 million in parks and $3.75 million in street and traffic improvements. An additional $6.1 million in Certificates of Obligation are needed to finance drainage and municipal improvements which are not included in the voted authorization. The City anticipates holding an election on the next GO bond referendum in 2007/08. The final $2 million of authorization (streets) from the 1999 bond election will be issued next year.

The debt service fund includes $11.1 million in revenues from property tax and interest income, and additional transfers from the Tourism Fund and Utility Fund totaling $5,043,524, which cover repayment of the CO's issued for the Sugar Land Conference Center and 80% of assumed water/wastewater debt from annexed and dissolved municipal utility districts. Expenditures include $16,136,875 in debt service payments plus $804,133 in tax rebates and transfers out. Ending fund balance of $4,240,259 is well above the 15% policy requirement of $2,414,981.

GENERAL FUND

The General Fund operating budget totals $48.3 million, a $4.96 million increase over the fiscal year 2005/06 amended budget, which includes the MUD113 annexation budget. The recurring operating budget, excluding rebates & assignments, is $3.3 million or 8.08% higher than the 2005/06 amended budget. Rebates & assignments are increasing by $981,698 due to increased valuation within in-city MUDs and growth in incentive agreements.

Base Budget

Base expenditures are funds that are necessary to provide services at current levels. Recurring base increases totaling $2,957,091 include $1.88 million for compensation growth, $808,749 for increased cost of doing business, $84,609 for new development, $66,911 for code enforcement and $110,741 for IT master plan implementation.

Compensation growth includes anticipated salary and benefits costs for existing positions plus a 5% merit pool. In fiscal year 2005/06 the City transitioned all employees to a common review date. As a result, the merit pools included in the budget fund a full year of salary increases, which results in a larger financial impact compared to the prior method of awarding merit on each employee's anniversary date. The increase also includes the full-year impact of 28.5 full-time equivalent positions added in the fiscal year 2005/06 budget and annexation budget but is offset by the shift of five positions to the new drainage fund.

Base budget increases related to the increased cost of doing business include $290,000 in additional electricity costs due to higher market rates, $94,000 for fuel increases and $155,000 in operations & maintenance costs associated with bringing the Corporate Drive facility back into service. Two positions are included to maintain service levels, a Fleet Mechanic and a Facility Technician. Other increases include $83,000 in additional training including public safety dispatchers, police recruits, SWAT training, a defensive driving program and Planning & Zoning board member training. Other increases included in the total are employee education reimbursements, park maintenance & operating increases, maintenance contract increases, Town Square parking garage assessments and increased seniors program and special events funding.

Increases for new development include the addition of 1.5 positions, a Permit Supervisor and the upgrade of a part-time Secretary to full-time to facilitate development review resources through department reorganization. Base increases for code enforcement include the addition of a fourth Fire Inspector to ensure coverage of the increasing commercial facilities within the city. Recurring increases from the IT master plan include two positions, a Project Manager and a Security Administrator, plus increased resources for service delivery and support, including increased training for computer users. Wireless technology for building inspectors is funded in the budget, which results in a recurring increase for licenses & maintenance.

Non-recurring base expenditures total $1,257,823 and include $194,130 to implement the uniform firearms program in the police department, $142,255 for six new vehicles, $100,000 for legislative communication, $62,635 for fleet maintenance equipment, $75,000 for review of the City's development code, $20,200 for new police exercise equipment, and $50,000 for an update to the master plan for the Police/Courts and Corporate Drive facilities. Also included is $83,600 for citywide implementation of the H.T.E. work order module, $50,000 for wireless building inspection equipment, $28,705 for upgrade of communication devices, $15,620 for a secure laser check printing system $50,000 for phase II of the leadership development program, and $65,000 for an operational review of internal and administrative services.

Enhancements

Recurring enhancements total $349,801 and include $199,188 for operating impact of CIP, $89,251 for the gang task force, $85,652 for code enforcement, and $30,210 to establish a volunteer program.

The first phase the Brazos River Park is anticipated to be complete in May 2007. The budget includes $86,388 for the addition of two Laborers and two part-time Park Supervisors to support maintenance and upkeep of the added park facilities. The budget also includes $32,800 in funding for maintenance needs at Duhacsek Park related to the completion of budgeted capital improvements at that facility.

Additions for the special crimes/gang task force consists of one new position, an Analyst, to assist the task force with gathering information, identifying patterns and creating profiles. Overtime and operating funds for the task force totaling $31,479 are also included as an enhancement, as this is a new program for the City. Code enforcement enhancements include the addition of a Code Enforcement Supervisor and funding for increased abatement efforts of code violations. Volunteer program funding includes $15,000 to establish a volunteer database to assist with matching volunteers with opportunities in the City. Police Department funding of $15,210 will establish their CAST program to support Citizen Police Academy graduates volunteering to assist the department.

Non-recurring funds for enhancements total $477,804 and include vehicles and equipment, $20,000 to establish a CERT program, $177,000 for projects recommended in the IT master plan, $110,400 for operating impact of CIP, $75,000 for street sweeping, and $27,164 for the special crimes/gang task force.

The General Fund budget draws down budgetary fund balance by $2,739,505 to fund non-recurring expenditures and transfers to other funds. Budgeted ending fund balance is $11,884,046, which is $888,074 higher than the 3-month operating reserve requirement. The General Fund has $346,122 in recurring revenues over recurring expenditures, of which $300,000 will be reserved for annexation/dissolution purposes as proposed by the City Manager.

DRAINAGE FUND

Fiscal year 2006/07 includes the creation of a Drainage Fund, to account for the City's efforts in drainage management from the proposed two cents within the tax rate dedicated to drainage. Of the operations & maintenance tax rate, $0.01547 is dedicated to drainage. The remaining $0.00453 of the two cents for drainage is included in the debt service fund to support repayment of Certificates of

Obligation issued for drainage projects. The budget anticipates $1,096,957 in tax revenues, $7,000 from interest income, and $105,000 transferred from the General Fund to establish the initial fund balance.

The Drainage Fund includes $530,118 in personnel and operating expenditures previously included in the General Fund operating budget, plus an additional $12,000 for maintenance of the AMIL gates, which the City acquired from LID 2 in fiscal year 2005/06. The remaining $515,000 in expenditures is transferred to the drainage capital projects fund in support of pay-as-you-go drainage projects. Projects supported by this pay-as-you-go funding include installation of additional flow monitors, storm sewer inlet & apron rehabilitation, rehabilitation of the AMIL gates acquired from Fort Bend LID #2, design of improvements to the US 90A ditch, and phase III drainage improvements in the Belknap/Brookside neighborhood. Without this additional funding for pay-as-you-go projects, these projects would have been without a funding source this fiscal year. In future years, a greater portion of the two cents for drainage will need to be allocated to the debt service fund in support of $4.4 million of drainage projects that will be funded through issuance of Certificates of Obligation.

The Drainage Fund is budgeted to end the year with a balance of $151,839. As this is a new fund for fiscal year 2006/07, a fund balance minimum of three months operating expenditures is recommended, which leaves the fund $16,309 over policy at year-end.

UTILITY FUND

The Utility Fund total budget is increasing by $1.48 million or 11.6%. Increases can be attributed to the higher cost of electricity and fuel, increased debt service payments from new debt, and the addition of five new positions, three of which are directly related to new development needs. The utility fund is funding $263,500 of its $7.2 million capital improvements program through pay-as-you-go funding, with $5,025,000 in projects funded through issuance of debt and $1,900,000 from drawdown of CIP fund balances.

Recurring additions for fiscal year 2006/07 total $332,402 and include $138,500 for increased contracted services & chemical costs for wastewater treatment plants, $12,664 in additional overtime for 24/7 customer service response, $49,960 for a pump & motor crew to ensure proper maintenance of the south side water plants and lift stations, $78,886 for a utility crew to serve new development, $17,000 for pretreatment laboratory analysis and $15,000 for small equipment replacement.

Non-recurring additions total $213,150 and include a 2-ton pump & motor truck, crew truck, hauling truck & trailer and a backhoe for the new crews, additional transit meters to serve new development and emergency sampling equipment for water quality testing.

The Utility Fund draws down balances of $1.6 million to support non-recurring operating expenses, pay-as-you go CIP, and transfers to other funds. Budgeted ending cash equivalents balance is $3,287,273, which is a 35% cash reserve, above the minimum of 25% of recurring operating expenditures.

SURFACE WATER FUND

The Surface Water Fund was created in fiscal year 2005/06 and is funded through a $0.25 per 1,000 gallons billed within the City’s current water rate for City customers, and an equivalent surface water fee for ETJ MUDs based on billed consumption. Funding from City customers is transferred monthly from the Utility Fund based on billed water consumption during that month. Transfers began in April 2006.

The Surface Water operating budget totals $348,740 and includes funding for one position and operating costs, including contracts for surface water rights and $600,000 in pay-as-you-go funding for capital improvement projects. The fund also includes a transfer to the drainage capital projects fund of $110,500 based on anticipated payments due under the WCID#1 surface water agreement.

The Surface Water Fund has a positive net income of $676,432 and is anticipated to end the year with a cash equivalent balance of $715,682. This fund currently has no minimum balance per policy.

AIRPORT FUND

The Airport Fund budget is increasing $2.5 million or 35.4% over the 2005/06 budget, largely due to increases in aviation fuel cost and full year operation of the new terminal. Airport revenues are budgeted to increase 33.3% or $2.5 million excluding bond proceeds and grants, as the airport is a self-supporting operation.

The recurring operating budget totals $8,879,779, a 42.6% increase over the fiscal year 2005/06 budget. Approximately 82% of this increase is driven by increased fuel prices, for which revenues are increasing to offset the increased cost. A new terminal building was completed in April 2006, and resulting increases are seen in the budget for electricity and operating costs. Other recurring increases to the operating budget include: a reorganization resulting in the addition of an Airport Business Manager and an FBO Manager; fuel farm maintenance; establishment of a replacement fund for furnishings, fixtures & equipment; increasing the RAMP grant budget from $60,000 to $100,000; and increased advertising.

Non-recurring items total $68,295 and include: an additional mower; a club car with baggage trailer to transport passengers; card-key access to restricted terminal entrances; and emergency power for the fuel farm. The airport is funding $3,035,000 in capital projects through the issuance of Certificates of Obligation, which will be supported through airport revenues.

The Airport Fund anticipates a net income of $67,990 after payment on a loan from the Sugar Land Development Corporation, and an ending cash equivalents balance of $1,465,633, which is a 17% cash reserve, above the 15 % policy requirement.

SOLID WASTE FUND

The Solid Waste operating budget totals $3,116,057, which includes contracted residential solid waste collection and 1.5 positions to provide services and monitor the contract. Through the contract, the City provides twice-weekly curbside trash and recycling pick-up. Fiscal year 2006/07 is the fourth year of a five-year contract. The contracted rate remains at the current $11.45 per household per month, through the end of the contract in September 2008. The budget includes a monthly solid waste rate of $11.57 per household for contracted services, operating costs associated with administration of the contract and educational programs. The budget is also funded through $58,358 transfer from the General Fund in support of a $0.76 per capita contract with Keep Sugar Land Beautiful, Inc.

The Solid Waste Fund anticipates an ending balance of $139,446, which is $2,690 less than the beginning balance. This fund has no minimum balance per policy.

ECONOMIC DEVELOPMENT

The City's component units, the Sugar Land Development Corporation (SLDC) and Sugar Land 4B (SL4B) Corporation are showing a 66% decrease in the budget over fiscal year 2005/06. The corporations are setting aside funding for direct incentives, economic development programs, and debt service obligations totaling $7.99 million for fiscal year 2006/07. In addition, the corporations are providing $1.86 million in pay-as-you-go funding for 2006/07 capital projects. Each corporation is financed by a quarter cent sales tax to assist in the promotion and development of the City.

Sugar Land Development Corporation
The 2006/07 budget for the Sugar Land Development Corporation totals $5.4 million. The budget includes operating expenditures of $700,279, which includes the Economic Development program and contractual services with the City for support services, economic development staffing, and capital projects management. The budget includes $2.1 million in debt service payment for outstanding debt issues. The Corporation is providing $280,000 for qualified capital improvement projects and $1,550,350 in direct incentive funding, which brings the funds available back to $2 million after projected incentive payments through September 2006.

The budget also includes the second of three $570,661 payments to the state for US 59 phase II widening, for which the bids came in significantly higher than anticipated due to increased costs for concrete and steel. The City was able to negotiate a three-year payment schedule without interest for the local portion of the increase. A transfer to the General Fund of $205,580 reimburses the City for the Corporation's share of the sales tax incentive grants.

The budgeted available ending balance for the SLDC is $1,559,986, which is $1,129,827 over the policy requirement of 10% of budgeted sales tax collections.

Sugar Land 4B Corporation
The Sugar Land 4B Corporation budget for fiscal year 2006/07 totals $4.8 million. Operating expenditures total $764,184, which includes funding for the Economic Development program and contractual services with the City for support services, economic development staffing, and capital projects management. The budget includes $2.28 million in debt service payment for outstanding debt issues. The corporation is providing $1,575,000 for funding of qualified capital improvement projects.

The budgeted available ending balance for the SL4B is $4,159,819, which is $3,729,660 over the policy requirement of 10% of budgeted sales tax collections.

TOURISM FUND

Since opening in October 2003, the Marriott at Sugar Land Town Square has realized continual growth. In total, revenues from the City's 7% hotel occupancy tax from four hotels are anticipated to exceed $1 million in fiscal year 2005/06, a 20% increase over budgeted revenues. Revenues are anticipated to continue at this level. The City may spend up to 50% of receipts on historical preservation projects. The budget proposes allocating $60,000 for preservation and documentation of a film from the 1940's depicting Imperial Sugar. Funds will be contributed from the Sugar Land 4B

Corporation and private sources as well. An additional $150,000 is proposed as matching funds with Imperial Sugar for preservation of historical artifacts and documents, which are targeted for display in a future museum project.
Tourism funding supports the City's contract with the Fort Bend Convention & Visitors Services, as well as support of the Grand Food and Wine Affair. Funding for advertising and promotion also supports a portion of the Shop Sugar Land program.

The Tourism Fund has a budgeted ending balance of $427,328. The fund has no minimum balance requirement.

CAPITAL IMPROVEMENT PROGRAM

The City is in a period where it must continue to plan and implement an aggressive capital improvement program. The City maximizes every source of funding available and is constantly looking for opportunities to leverage funding through the use of county, state and federal dollars. The Five Year CIP includes $31.35 million in projects for appropriation in fiscal year 2006/07. Of these projects, $21.5 million or 68% will be funded from the sale of debt during fiscal year 2006/07. Pay-as-you-go or other funding sources accounts for the remaining 32% or $10 million, which includes sales tax and property tax revenues, utility and airport system revenues, and economic development corporation funding.

Drainage projects make up the largest single component of the 2006/07 capital improvement programs, with $5,275,000 or 16.8% of the total funding. Major projects include the extension of Ditch "H", improvements to drainage in the Sugar Creek area, rehabilitation of the AMIL gates acquired from Fort Bend LID #2, and other localized drainage improvements.

Wastewater projects make up the second largest share, with $5,100,000 or 16.2% of funding. Major projects include design of a flow diversion between wastewater treatment plants to manage system demands due to new development in the southwest portion of the city, collection system upgrades, emergency power, and rehabilitation projects. Water projects total $1,963,500 and include supplemental funding for water plant #3, design of an elevated storage tank, and water system security upgrades. One surface water project is funded at $600,000 to evaluate and implement non-potable water opportunities.

Park projects total $5,110,500 or 16.3% and include construction of a recreation center, renovation of City Park, design of improvements at Imperial Park, design of SH6 and US90A beautification and a cultural arts feasibility study. Street projects total $4,360,988 or 13.9% and include reconstruction of Main Street, improvements to Burney Road, rehabilitation of asphalt streets throughout the city, pavement rehabilitation, Mayfield Park street reconstruction and a feasibility study for an underpass at US90A and Eldridge Road. Traffic projects total $2,310,000 and include aesthetic upgrades to traffic signals and streetlights, installation of traffic signals at Dairy Ashford @ Park Lane and Lexington @ Mall Ring Road, and intersection improvements along SH6 at Lexington and Town Center, and on Eldridge @ West Airport.

Municipal projects total $3,600,000 and include construction of an animal control facility, emergency power for city facilities, automated building management system, land acquisition for fire station #7, additional fuel storage capacity and various improvements to existing facilities. Airport projects round out the list at $3,035,000, which consists of 100 new T-hangars in the new general aviation complex, which will replace the 80 existing T-hangars.

The five-year fiscally constrained CIP totals $183.7 million, including fiscal year 2006/07. Water, wastewater and surface water projects make up the bulk of the five-year CIP with $81.1 million during the period. Major projects include expansion of a wastewater treatment plant and construction of a surface water treatment plant. Many projects identified are contingent on approval of an upcoming bond referendum. Of the $102.7 million in non-utility projects, $47.0 million have been identified as potential projects for a bond referendum in the 2007/08 timeframe.

EMPLOYEE COMPENSATION

The City's compensation philosophy looks at total compensation through applying and reviewing the benefits burden in conjunction with base compensation. The City Council has adopted a benefits burden policy allowing the City Manager to manage benefits within an established parameter, that parameter being to maintain the benefit burden within the State of Texas and industry standards and in no case greater than 40%. The estimated benefit burden for fiscal year 2006/07 is 38.3%, well within the policy.

Salaries

The fiscal year 2006/07 budget includes funding for a 5% merit pool, but no cost of living adjustment. The City's compensation philosophy includes adjusting to market annually for certain benchmarked positions to ensure a competitive pay plan for the City to hire and retain employees. The City makes adjustments to the pay grade ranges annually per the compensation philosophy. The General & Management pay plan will be adjusted 2.3% for fiscal year 2006/07 based on the February CPI index for the Houston-Baytown-Sugar Land MSA. The Fire and Police pay plans will be adjusted based on the outcome of the Public Safety Compensation and Special Pays Study. Compression in the first quartile of Fire and Police pay ranges will be addressed due to equity issues that result from raising entry salaries as recommended by the study. The study also recommends implementation of certification pay for employees in the public safety and utility departments. The budget includes funding to cover all compensation plan and certification pay adjustments. The budget also includes a $250,000 reduction for anticipated salary savings to be realized from vacancies that typically occur throughout the year. Departments will be expected to manage their vacancies to maintain key service levels.

Benefits

The City offers a competitive benefit package to employees, including medical and dental coverage and contributions toward dependent coverage. Increases are once again anticipated in benefit costs; a 12% increase in medical premiums and a 5% increase in dental premiums is anticipated in January 2007. In the last two years, employees have not been passed on an increase in premium costs; this year the increase is anticipated to impact both the City and employee portions. The City participates in the Texas Municipal Retirement System; employees contribute 7% of their pay and the City matches their contributions 2 to 1 upon retirement. The City's contribution rate will decrease from 12.13% to 11.70% for calendar year 2007. The City's contribution rate changes from year to year and is based on actuarial analysis of funding needs in the City's plan.

FUTURE OUTLOOK

As identified in the Financial Management Policy Statements, a long-range forecast has been prepared for each of the major operating funds. The forecast is included in the appendix to this document and will be reviewed with each operating fund during the budget workshops. The forecast builds in all proposed additions for fiscal year 2006/07, plus builds in personnel and operating budget growth, including operating impacts of capital projects, needs from anticipated development, and implementation of the projects and additions identified in the Information Technology Master Plan. The forecast shows the City will continue to maintain its financial health and afford the decisions that are proposed in the fiscal year 2006/07 budget.

A key factor in the outcome of the five-year forecast is the identified need for a bond referendum in the next two years. City staff is already working on an implementation plan, as identified projects in the capital improvements plan already total $47 million; more projects likely to be identified as a result of studies and master plans currently underway. The fiscal impact analysis related to this bond referendum will have a major impact on the City’s forecast in the General and Debt Service Funds. At this point, the impact of the bond referendum is not included in the forecast. Education of residents prior to the bond election will be essential to the passage of the bond referendum and the resulting impact on the City’s tax rate and operating expenditures once projects are implemented.

CONCLUSION

The budget for fiscal year 2006/07 is focused on preserving the City's strong financial position by implementing strategies now to produce the least impact to the taxpayers now and in the future. The budget asserts the City's commitment to meet and exceed the community's high expectations at a reasonable cost. Through continued growth and development, the City is poised to maintain an excellent financial outlook and provide an avenue for protection of our future assets.